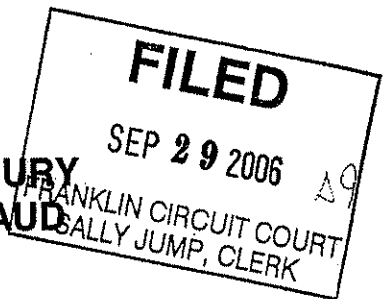


**2006 FRANKLIN COUNTY SPECIAL GRAND JURY
INVESTIGATIVE REPORT ON WELFARE FRAUD**



We, the Special Grand Jurors, make the following report of our investigation, and we adopt and fully endorse it as evidenced by our signatures below on this 28th day of September 2006:

I. Introduction

Between March 21, 2006 and August 14, 2006, we heard testimony from 40 witnesses, and returned indictments charging 10 individuals with a total of 136 felony counts of Assistance Program Fraud, Forgery, and Perjury in connection with Welfare Assistance Programs administered by the Cabinet for Health and Family Services (the Cabinet). Eight of the individuals indicted were employees or former employees of the Cabinet or one of its contractors.

Thirty-one of the witnesses who testified before us were employees or retired employees of the Cabinet. We also heard witnesses from the state Auditor's office who conducted an expanded audit upon various Assistance Programs administered by the Cabinet for the fiscal year 2004-2005. We heard testimony from the firm that administers the electronic benefits transfers (EBT) into the Food Stamp accounts of recipients as well.

The evidence we have heard over the past five months concerning the welfare system in Kentucky leads us to suspect that the indicted cases of fraud—both the ones we returned and those brought elsewhere—are the “tip of the iceberg.” We have outlined in this Report systemic deficiencies we believe contribute to ongoing welfare worker and recipient fraud, and deserve to be addressed in order to make the system less susceptible to such fraud and the resultant loss of millions of dollars in desperately needed funds for the Commonwealth.

II. Summary of Indictments Returned

We returned indictments against ten individuals during our five month investigation of the welfare system administered by the Cabinet. Eight of the ten individuals indicted were either current or former employees of the Cabinet or one of its contractors. A summary of those indictments follows:

1. **Commonwealth v. LaTannya Turner**: The defendant, a caseworker in Jefferson County, was indicted on 25 felony counts, as well as a Persistent Felon charge. Turner's charges include submitting forged proof of employment in order to illegally obtain Child Care benefits; and issuing approximately \$37,000 in Family Alternative Diversion program checks that were supposed to go to the benefit of recipients for expenses such as rent, utility bills, and car repairs. Instead, Turner is charged with diverting the checks to pay her own rent and utilities, or with simply cashing the checks.
2. **Commonwealth v. Marion Cornelius**: The defendant, a Jefferson County caseworker, was indicted on 11 felony counts totaling approximately \$33,000 in fraudulent payments. Her charged actions include fabricating welfare cases by which she obtained and cashed checks, and submitting forged documentation to obtain illegal Child Care benefits.
3. **Commonwealth v. Devin Steadmon**: The defendant, daughter of former caseworker Marion Cornelius, was indicted on 4 felony counts of welfare

fraud in connection with giving false information to obtain Food Stamp and Transitional Assistance benefits totaling approximately \$12,000.

4. **Commonwealth v. Sharlene Pitts**: The defendant, an Anderson County caseworker, was charged with 16 felony counts for using the Food Stamp card of a recipient who had asked that her Food Stamp benefits be terminated due to improved financial status. The caseworker is charged with using the card at stores in five counties over a period of three months before being discovered.
5. **Commonwealth v. Leslie Cook**: The defendant, a caseworker in Caldwell County, is charged with one felony count of Assistance Program Fraud for using her position and knowledge of the system, and providing false information to obtain Medicaid benefits for a member of her family who was not entitled to receive them.
6. **Commonwealth v. Miquel Castro and Sylvia Tooley**: The defendants, supervisors in the Warren County office of Department for Community Based Services, were indicted for felony Assistance Program Fraud, on grounds that they manipulated the Medicaid system to pay over \$40,000 for a woman who could have gotten private health insurance through her husband's employer.
7. **Commonwealth v. Lydia Johnson**: The defendant, a retired Jefferson County caseworker, was indicted for felony Assistance Program fraud and Perjury for using her deceased mother's Food Stamp card on 30 occasions over a period of 13 months following her mother's death.

8. **Commonwealth v. Michelle Howard**: The defendant, an employee of the contractor administering Child Care benefits in Harlan County, was charged with felony Assistance Program Fraud for intentionally deleting information from a computer so that Child Care benefits would continue to be paid to a woman who was no longer entitled to receive them.
9. **Commonwealth v. Shirl Gresham**: The defendant was charged with felony Assistance Program Fraud for using her mother's Food Stamp card on 44 occasions at stores in Jefferson County after her mother had died.

III. Findings and Recommendations

In addition to returning indictments against ten individuals for felony offenses connected to the various Assistance Programs administered by the Cabinet, we make the following recommendations arising from the totality of evidence we heard concerning the overall administration of Welfare Assistance Programs in the Commonwealth:

1. We recommend that the Cabinet make reduction of caseload carried per caseworker its top priority in the administration of Assistance Programs. The caseload assigned to front-line workers in the local offices of the Department for Community Based Services is alarmingly high. We found that the average caseload per caseworker statewide is approximately 800 cases, with some as high as 1000 cases, making it impossible for a worker to competently handle any given case. Simple arithmetic establishes that in a 37.5 hour work week, a worker carrying 800 cases would have 2.8 minutes per week to spend on each case. The existing

situation is simply not feasible nor is it acceptable. It is apparent that the Cabinet needs more caseworkers—a goal that could be accomplished both by allocating funds for hiring additional personnel, by re-allocating responsibility for cases to personnel not currently assigned front line case responsibility, and by exploring the possibility of shifting some administrative responsibility to Federal contractors.

2. We recommend that the Cabinet seek to implement a system of recurring communication between its Department for Community Based Services which administers Assistance Programs, and its Division of Vital Statistics, in regard to the deaths of individuals receiving Assistance Program benefits, so that payments do not continue after a recipient has died. The Auditor's report found that some 7400 payments were made during fiscal year 2004-05 to Food Stamp accounts *after* the recipients had died. In some cases, as many as 18 months had elapsed after the recipient's death, yet the electronic transfer of funds continued each month to the Food Stamp accounts. In one case, a recipient who died in August, 2004, still had \$1000 in her account as of March, 2006. In another case, a recipient died in June, 2004, yet \$887 remained in the Food Stamp account as of March, 2006. This type of breakdown in the system inevitably creates opportunity for fraud on the part of both welfare recipients and workers. In fact, we returned indictments in two cases investigated by the Attorney General's Office, against individuals who used the Food Stamp or EBT card of a deceased relative whose benefits

had not been discontinued. The evidence clearly established a breakdown in the system in which there is no definitive protocol regarding deaths that stops payments. We note that in the private sector, payments to deceased persons would not occur.

3. We recommend that existing staff be utilized in a more efficient manner; for instance, some duties could be assigned to support staff such as: assisting with yearly case updates, verifying correct addresses on returned mail, and checking for death notifications to determine whether a recipient has moved or died, rather than simply filing away the returned mail. Redistributing some duties would enable workers with heavy caseloads to avoid some of the lapses that create opportunity for fraudulent use of the Food Stamp card.
4. We recommend that the Cabinet assess the current process of granting Case Decision authority to a caseworker. We found that some caseworkers are granted this authority—to award Assistance Program benefits—as early as eight months after date of hire. Due to the critical nature of Case Decision authority, we recommend that the decision to grant this authority be based upon objective criteria verifying that the worker has become qualified to competently exercise Case Decision authority.
5. There are currently inconsistent practices among county welfare offices concerning the requirement that a person's initial application for Assistance Program benefits go through an "agency contact" (support

staff, Principal worker, or Supervisor), in addition to a caseworker in order to verify the applicant's information. To prevent additional opportunities for fraud inherent in this process, we recommend that only Supervisors, not Principal Workers, be permitted to override the "agency contact" entry in the computer in order for an Assistance Program application to be accepted.

6. We recommend that all caseworkers, as a condition of employment, if not currently asked to do so, be required to sign a document acknowledging that they are subject to prosecution if they commit Assistance Program Fraud. We also urge the Cabinet to be more vigorous in enforcing the prohibition against a worker's involvement in a family member's case. Three of the indictments we returned involved a caseworker who was able to circumvent the system and exercise "hands-on" influence over a family member's Assistance Program benefits.
7. We recommend that the Cabinet be more vigilant and proactive in investigating and referring for prosecution cases of welfare worker fraud. We suggest that the Cabinet consider reinstituting its former contract with the Attorney General's Office for criminal investigation of welfare fraud—both recipient and worker—in order to increase the numbers of investigations of such cases. Both the testimony we heard, and common sense indicate that the Commonwealth would be better served by having those with experience in this program-specific area of criminal fraud continue to perform investigations, in addition to those being performed by

the Cabinet itself. In common parlance, in light of the Auditor's report showing 20,000 potentially fraudulent welfare payments in one year: "there is enough fraud to go around" –enough for everyone to investigate. Such a cooperative effort can only benefit the Commonwealth and its resources.

8. We recommend that the Cabinet develop more edits for the computer systems in order to identify and prevent improper payments in any Assistance Program. The expanded audit produced by the Auditor of Public Accounts listed approximately 20,000 potentially fraudulent payments during the 2004-05 fiscal year, many of which could possibly have been prevented with adequately functioning safeguards in the computer systems. We also recommend that the Cabinet take steps to enforce current rules covering computer password protocol, specifically eliminating password sharing that obviously weakens security in the system.
9. We recommend that in order to be proactive in preventing Assistance Program Fraud, the Cabinet consider instituting a system of photo identification cards to be used by recipients of benefits other than Food Stamps assistance. In the alternative, in lieu of photo identification cards, and for Food Stamp (EBT) cards, a Driver's License or other form of photo identification should be required each time an Assistance Program card is presented for payment, just as many retailers require for payment by check. For those recipients who have an Authorized Representative on

their account, we suggest that person's name be included on the identification card, and that he or she be required to produce photo identification when using the card.

10. We recommend that the Cabinet require all persons who are physically able to appear in person in the local offices in order to apply for Food Stamp benefits. The current system which allows these applications to be completed by telephone, creates unnecessary opportunity for both recipient and employee fraud. We suggest that the Cabinet encourage collaboration between the different branches within the same local office as a means of ensuring personal contact with applicants not physically able to appear.
11. We recommend that the Cabinet institute a procedure in which Food Stamp accounts are frozen—after three months if the card has not been used, or immediately upon notification of the death or disqualification of a recipient. Under current protocol, funds continue to be added to a Food Stamp account for up to nine months even though the recipient has not used the card during that time. Once funds are removed from an account after nine months of non-use, the removal is piecemeal—one month at a time for as long as necessary to expunge the entire amount. We recommend that when a Food Stamp card has not been used for nine months, or immediately upon verification of the death or disqualification of a recipient, all funds be removed from the account in a lump sum. The

current system is much too cumbersome, and ties up funds for months that could be applied elsewhere in the system.